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STATE FOR U/S M PATRICK KENNEDY
ALSO FOR EAP/EX

E.O. 12958: N/A
TAGS: [AMGT](#) [ABLD](#) [VM](#)

SUBJECT: SCENESETTER FOR UNDER SECRETARY FOR MANAGEMENT PATRICK
KENNEDY VISIT TO VIETNAM

Introduction

1. (SBU) Under Secretary Kennedy: Ambassador Michalak and Mission Vietnam look forward to welcoming you to Hanoi. Your visit will be an important signal to the Vietnamese of the importance of our growing bilateral relationship, and the need to adequately support it with the construction of a New Embassy Compound (NEC). We seek to make this the culmination of ten years of negotiating the acquisition of a NEC site, building on the progress made during the last year of sustained and intense negotiations by post. A number of issues have been resolved, or are amenable to settlement through reasonable compromise and negotiations. The issue of reciprocity regarding lease terms, however, continues to be a stumbling block. Your discussions with the Vietnamese leadership will help push the negotiations to a conclusion.

2. (SBU) Our strengthening relations are in large part due to Vietnam's realization that the United States is an important force in maintaining a stable geopolitical environment in which even small countries like Vietnam are assured independence and freedom of action. Vietnam also sees in the United States an increasingly important source of investment and financial and technical assistance, as well as a huge market for Vietnamese goods. Vietnam's leaders are committed to continued progress in bilateral relations and will likely speak positively and optimistically about the future of U.S.-Vietnam ties.

3. (SBU) Differences over human rights remain, however, and lingering fears that the United States supports the overthrow of the current regime continue to complicate the relationship. Similarly, while Vietnamese are overall quite positive about the United States, you may hear references to "legacies of the war," in particular Agent Orange.

Increasingly Conscious of International Role

4. (SBU) The GVN recognizes the strategic importance of the United States in the region and the world, but is not shy about criticizing the U.S. for "interference in its internal affairs" or other U.S. actions it perceives as outside the multilateral system. There is a significant faction within the communist party, particularly in the security forces, that constantly warns that "peaceful evolution" from a communist to a democratic government represents the gravest long-term security risk facing Vietnam. They routinely chafe over U.S. criticism of Vietnam's human rights and religious freedom record. Nonetheless, Vietnam's leaders are also pragmatic and recognize that Vietnam's own continued economic well-being, growth and security are, in large measure, inexorably tied to its relationship with the United States.

5. (SBU) Vietnam has begun to explore opportunities within regional organizations to increase joint efforts against terrorism, narcotics, maritime piracy and other issues of shared concern.

Vietnam recently began joint sea patrols with its neighbors in the Gulf of Thailand and has established hotlines to help facilitate coordination along sea boundaries. Nevertheless, for historic and foreign policy reasons, the GVN is generally reluctant to speak out against its "traditional friends" such as North Korea and Iran when they engage in behavior that the rest of the international community condemns, and in its current role as a non-permanent member of the Security Council it has adopted traditionally Non-Aligned Movement positions that do not generally line up with our own.

U.S. Assistance Areas: Health, Humanitarian and Governance

¶6. (U) Since 1995, we have had an active program in health diplomacy. Programs have provided aid in legal reform, governance, economic growth, HIV/AIDS, environmental protection and disaster prevention. For FY 2008, total U.S. assistance from all agencies for the President's Emergency Plan for AIDS Relief (PEPFAR) was about USD 88.9 million, and since 2004, USD 234 million, which has gone towards providing assistance in the area of HIV/AIDS treatment and prevention. Vietnam is one of fifteen countries with a PEPFAR program. Over 50 percent of our overseas development assistance is devoted to health in areas such as influenza, tuberculosis, vaccine development, and tobacco control. For example, the USG is the largest single bilateral donor in implementing the President's Three Pillar Strategy to avert the next influenza pandemic. These efforts are complemented by the provision of in-kind technical assistance, for example, in human capacity development, cholera control, and road safety. Our fundamental goal is to assist Vietnam in the challenging road of health sector reform, given the rapid pace of economic change and modernization.

Trade and the Economy

¶7. (SBU) Trade and investment have played a central role in our improved relations and we are seeking to keep up the momentum with agreement soon on a new bilateral investment treaty and a more liberal civil aviation agreement. After a decade of isolation and failed economic policies, Vietnam is determined to catch up with the Asian tigers. Vietnam's "doi moi" (renovation) program of economic reform, begun in 1986, has set the country on a successful market economy path, with an average growth rate of 7.5 percent over the past decade. The GVN understands that continued economic growth is essential to political survival. The GVN focuses on exports and foreign direct investment in its drive to achieve middle-income status by 2010. The United States is Vietnam's largest export market and third largest overall trade partner. U.S. investors tell us the key challenges they face in Vietnam are underdeveloped infrastructure, a shortage of skilled workers and managers, and the considerable level of state participation in the economy. For its part, the GVN is grappling with issues of corruption, improving the legal environment, and implementing its WTO commitments.

¶8. (SBU) Vietnam is dealing with serious macroeconomic challenges which prompted some analysts in the spring to warn that it faced a 1997-like meltdown. Inflation has risen sharply (28 percent year-on-year for August) and the current trade deficit is uncomfortably high. High money and credit growth and global inflation are the main causes. Vietnam has tightened monetary and fiscal policy in response. These measures have proved effective so far and the government needs to stay the course. Over the longer term, Vietnam needs to undertake serious reforms of its powerful State Owned Enterprises (SOEs) to ensure long-term economic growth.

Embassy Staffing and the Real Estate Crunch

¶9. (SBU) The increasingly strong diplomatic and trade relations, the greater importance of Vietnam on the world stage, and burgeoning U.S. assistance has resulted in significant staff growth that promises to continue for the foreseeable future. Staffing has increased by more than one third over the last four years, and is projected to increase by the same amount over the next five.

¶10. (SBU) The Embassy has long since out-grown its current Chancery,

which was provided to us as a "temporary" building in 1995 until a more permanent site was obtained. Consular, PAS, GSO, CDC, HHS, DOD PEPFAR, FCS, FAS, and Treasury operations are located in an Annex called the Rose Garden, around the corner from the Chancery; USAID is located in the Tung Shing building, 20 minutes driving time from the Chancery. We have now reached the space limitations of these two annexes as well, and the Chancery is filled beyond capacity. In order to relieve the over-crowding and provide space for current and future growth, while maintaining programmatic integrity, the Embassy is seeking to collocate the PEPFAR and assistance agencies (USAID, CDC, HHS, and DOD PEPFAR) in a new office building. The over-heating economy and lack of infrastructure, however, have combined to make available space exceedingly difficult to find. Currently in Hanoi, 98.6% of office space is occupied. Considerably more office space is scheduled to come on line in 2010 and after, but continued Embassy growth means that this will come too late. Most of this space will be far from the Embassy in any case. Currently, the Embassy is evaluating two properties for rental: the ITT, which is about a seven minutes drive time from the Embassy; and RESCO which is about eight minutes away. The first appears to have too many safety issues to be practical; the second is still under assessment.

¶11. (SBU) In addition to being over-crowded, the Chancery has a number of serious functional and structural problems. The building was never meant to house the Embassy for more than five years (much less thirteen now, and what is likely to be close to twenty by the time the NEC has been built). A NEC is critical to resolving these problems - as well as bringing, at last, all agencies under one roof.

Ho Chi Minh City Real Estate Issues

¶12. Sustained rapid economic growth in Ho Chi Minh City continues to drive rental rates up sharply -- a trend unlikely to abate for many years. Over the past two years, the Consulate has experienced an aggregate increase of 18% in their residential lease costs in a market already significantly more expensive than others in the region. Although some are hoping that the current global financial crisis may bring about a softening in the leased space market, our most recent renewals demonstrate an accelerating rate increase, typically in the 30% range. In order to contain spiraling lease costs, provide for a more stable housing base and to make more

effective use of USG-owned land, the Consulate proposes developing a vacant property under a public-private partnership model. They have been working closely with both OBO and the CFO, both of which support the project, and understand the issue has now been put forward to OMB.

¶13. The market for office space in Ho Chi Minh City is even more costly and dramatic than that of residential. The Consulate currently has eight agencies and offices located in two off-premise locations. In 2006, the Consulate experienced a 32% rate increase for the property supporting our Public Affairs Section, FCS, FAS and DHS/ICE. Last year, they experienced a 58% increase in the lease rate for the commercial space for the Humanitarian Resettlement Section, CDC, AID and DHS/CIS. To illustrate further the direction the market has been headed, last month the Canadian Consulate renegotiated their lease and witnessed rental rates soar from USD 26 per square meter to USD 72. The good news is that a number of commercial buildings are coming on line in 2009 and the forecast is that there may be a (short-lived?) softening in the market. The Consulate is trying to take advantage of this window of opportunity and is currently working with OBO to develop a Space Requirements Plan for consolidating all off-premise offices.

Definition of HCMC Consular District Still an Issue

¶14. The GVN is anxious to open a consulate in Houston. It would be helpful if you would reinforce our desire to open Houston as soon as we have regularized the consular district of our Consulate General in HCMC (which we proposed in 1995 should include 33 provinces and which the GVN currently limits to the HCMC city limits). We have told the GVN we would be willing to move forward with Houston after a "significant" enlargement of the HCMC Consular District. The MFA

tells us some provincial governments and some Ministry of Public Security officials object to the enlargement because of concern that we meet with troublemakers (dissidents). The MFA has recently strictly enforced the limits, denying travel, for example, to Danang of a HCMC officer while allowing a Hanoi officer to make the same trip for the same meetings on the same day. Deputy Secretary Negroponte also raised these issues when he visited Hanoi September 11.

What You Can Expect

15. (SBU) You can expect your interlocutors not only to be articulate and well informed, but also to speak in terms generally supportive of growth in the bilateral relationship. As noted above, lingering suspicions still exist among conservatives in leadership about the development of closer ties with the United States, but the overall tenor is one of support and interest at a measured pace that will not upset the GVN's calibrated attempts to maintain balance among its other regional partners. GVN NEC negotiators have been flexible on some issues (e.g., infrastructure cost), and not so flexible on others (e.g., agreeing to the possibility of a 99+99 year lease). We believe that the GVN sincerely wishes to negotiate an acceptable agreement with us, due to our increasingly close ties, as well as their desire to have a similar arrangement for their facilities in the United States; but they feel bound by their law, and to some extent, by certain agencies within the GVN.

16. (SBU) We look forward to your visit and stand ready to do everything we can to make your time in Vietnam as productive as possible.

Michalak